This Prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence.

NEW ISSUE

MACQUEST RESOURCES LTD.

(Incorporated under the laws of the Province of Alberta)

1,200,000 Common Shares

(without nominal or par value)

Price: $2.65 per Share

The Shares offered by this Prospectus have been firmly underwritten. Refer to "Plan of Distribution" on page 16.

	Price to the Public	Underwriting Discounts or Commissions	Proceeds to Company (1)
Per Share	$ 2.65	$ .1855	$ 2.4645
Total	$3,180,000.00	$222,600.00	$2,957,400.00

(1) Before deduction of expenses of this issue estimated at $130,000.

SPECULATIVE ASPECTS

INVESTMENT IN THE SHARES OF THE COMPANY MUST BE REGARDED AS SPECULATIVE DUE TO THE NATURE OF THE COMPANY'S BUSINESS AND ITS PRESENT STAGE OF DEVELOPMENT. SEE "SPECULATIVE NATURE OF SECURITIES AND DILUTION" ON PAGE 17.

THERE IS NO MARKET THROUGH WHICH THESE SECURITIES MAY BE SOLD AND THE PRICE OF THIS OFFERING WAS DETERMINED BY NEGOTIATION BETWEEN MACQUEST RESOURCES LTD. AND THE UNDERWRITER.

The underwritten shares offered to the public by this prospectus will represent approximately 22% of the outstanding shares and the promoters and vendors of the property to the Company will retain approximately 58% of the outstanding shares upon completion of this offering.

The common shares of the Company are not listed for trading on any stock exchange. Application for listing of the shares of the Company on The Alberta Stock Exchange has been accepted subject to the completion of documentation and evidence of satisfactory distribution.

We, as principals, conditionally offer these Shares if, as and when issued by the Company and accepted by us in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" on page 16 and subject to prior sale and to the approval of all legal matters on our behalf by Burnet, Duckworth & Palmer, Calgary and on behalf of the Company by Jones & Company, Calgary.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that definitive certificates for these Shares will be available for delivery on or about August 6, 1980.

July 22, 1980

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MACQUEST RESOURCES LTD.

PROSPECTUS

MACQUEST RESOURCES LTD.

PRINCIPAL FEATURES OF THE OFFERING

The following is a summary of the principal features of the offering. Reference is made to more detailed information contained elsewhere in this Prospectus.

The Company:	Macquest Resources Ltd. and its wholly owned subsidiaries have been established principally to acquire interests in and for the exploration, development and production of petroleum and natural gas in Western Canada and certain areas of the Western United States.
Reserves:	As at March 31, 1980 Macquest Resources Ltd. and its wholly owned subsidiaries have 4,734 MMcf of net proven and probable reserves of natural gas and 204,500 STB of net proven and probable conventional reserves of crude oil. MMcf means millions of cubic feet. STB means stock tank barrels.
Acreage:	As at March 31, 1980 Macquest Resources Ltd. and its wholly owned subsidiaries hold 188,238 gross acres and 32,347 net acres situated in the Province of Alberta and the States of Montana, Utah, Wyoming and Texas.
Management:	Chief Executive Officer, John William MacKenzie; Chief Financial Officer, Gilbert James Henderson; Vice-President Exploration, Peter Joseph Gross.
Securities Offered to the Public:	1,200,000 common shares without nominal or par value in the capital stock of the Company to represent upon issuance 22% of the issued common shares of the Company.
The Offering:	1,200,000 common shares (the "Shares") at $2.65 per common share.
Proceeds to Company:	$2,827,400.00
Use of Proceeds:	Funds will be expended as follows: development drilling and production facilities, $550,000; drilling of new prospects, $600,000; lease acquisitions, $300,000; future working capital requirements, $600,000; and reduction of present current liabilities, $777,400.
Risk Factors:	These common shares are speculative. There is no market through which these common shares may be sold.
Listing:	Application for listing of the shares of the Company on The Alberta Stock Exchange has been accepted subject to the completion of documentation and evidence of satisfactory distribution.

THE COMPANY

Macquest Resources Ltd. ("Macquest") was incorporated in the Province of Alberta on October 31, 1977, as a private company under the name J. W. MacKenzie Oil & Gas Ltd. On October 30, 1978, J. W. MacKenzie Oil & Gas Ltd. changed its name to Macquest Resources Ltd. The Company was converted from a private to a public company on March 29, 1979.

Macquest was incorporated with an authorized capital of 20,000 common shares without nominal or par value which may be issued for a maximum price or consideration of $20,000.00, which was increased on February 7, 1979 to 15,000,000 common shares without nominal or par value, which may be issued for a maximum price or consideration of $15,000,000.00.

The head and principal office of Macquest is located at 750, 999 - 8th Street S.W., Calgary, Alberta, T2R 1J5.

Macquest carries on business in the United States through its wholly owned subsidiaries Macquest Petroleum Inc. and Macquest Resources Inc., both of which are incorporated under the laws of the State of Montana. Reference to the Company herein includes reference to Macquest and its subsidiaries.

BUSINESS OF THE COMPANY

The primary business of the Company is the acquisition of interests in petroleum and natural gas rights and the exploration for, development and production of petroleum and natural gas, principally in Western Canada and the United States.

It is the policy and practice of the Company to originate petroleum and natural gas prospects in selected areas chosen on the basis of geological and engineering studies. The Company selects areas which it considers to have potential and endeavours to acquire interests in these areas. The Company has concentrated on petroleum and natural gas prospects which are in close proximity to existing discoveries of petroleum and natural gas. In order to spread the financial risk involved, the Company has in most instances drilled in conjunction with other parties.

To date the Company has restricted its exploration and land acquisition program primarily to the States of Montana, Wyoming and Texas in the United States of America and has also carried on a limited exploration and land acquisition program in Alberta, Canada.

PROPERTIES OF THE COMPANY

The Company has varying interests in petroleum and natural gas rights in the States of Montana, Texas, Utah, Wyoming and Alberta, Canada. The interests were evaluated by Sproule Associates Limited, independent petroleum consultants, Calgary, Alberta, with respect to crude oil and natural gas reserves in a report dated May 9, 1980 (the "Sproule Report"). This report serves as the basis for certain information contained in this prospectus.

DEVELOPED LANDS

The following is a summary of the most important areas drilled to date to which proven and probable reserves have been assigned. These areas are in the view of the Company its most important because they have a greater and more immediate development potential as a result of the larger land holdings of the Company associated with these areas.

CANADA

ALBERTA

Craigmyle Area

The Company holds a 6.875% working interest in 5,760 gross acres in the Craigmyle Area. Two wells, 10-16-32-17 W4M and 5-21-32-17 W4M, were drilled on the acreage during March, 1980 and both tested gas from the Basal Belly River at rates of 1,900 MCF/D and 170 MCF/D respectively. A successful follow-up well was drilled on the acreage during June, 1980 to fully evaluate the nine sections of potential gas pay. The Sproule Report has estimated the Company's gross reserves under four sections of land at 205 MMcf of gas.

Twining Area

The Company has an 8.75% working interest in 160 gross acres in the Twining Area. Macquest, as operator, drilled a well located at 10-26-31-24 W4M in September of 1979 which was placed on production in October, 1979 as a Banff oil well. The well also encountered an estimated 30 feet of oil pay and an estimated 26 feet of gas pay in the Pekisko formation. Production from the Banff formation was subsequently suspended and the well is now producing from the Pekisko formation. The Sproule Report has estimated the Company's gross proven reserves at 20,400 barrels of oil and 110 MMcf of gas for this well.

Elnora Area

The Company holds an 8.75% interest in 1,920 gross acres and a 4.375% interest in 1,280 acres in the Elnora Area. The initial well located at 15-28-35-22 W4M was drilled in July of 1979 and tested gas from two zones at rates of 605 MCF/D and 18 MCF/D. A follow-up well was drilled at 6-4-36-22 W4M and also flowed gas from two zones at rates of 400 MCF/D and 24 MCF/D.

Negotiations are under way with the farmor to have these wells included under an existing gas purchase contract.

The Sproule Report has estimated that the Company's gross proven gas reserves in the Elnora Area are 130 MMcf.

UNITED STATES

MONTANA

Little Rock Area

The Company has oil and gas interests varying from 80 per cent to 90 per cent in 2,278 gross acres (2,034 net acres) in the Little Rock Area of Glacier County, Montana. To date the Company has participated in the drilling of seven wells, all of which have been completed and are commingled for production from the Blackleaf and Bow Island sands. Six of the wells have been placed on production and the gas is being sold at a rate of 600 MCF/D to The Montana Power Company.

The Company owns 50% of the gathering and compression facilities which allow immediate access to the natural gas market.

An additional six wells are planned in this area in which the Company's working interests will vary from 70% to 90%. Of these wells one will be drilled to test the Madison formation as a potential gas reservoir. All the wells are expected to encounter Blackleaf and/or Bow Island sand gas production. The total cost to drill and complete these wells is approximately $65,000 each.

The Sproule Report estimates that the Company's share of gross proven developed plus undeveloped reserves of natural gas is 1,609 MMcf.

Kevin Area

The Company has a 15% working interest in all oil and gas rights in 37,000 gross acres in the Kevin Area of Toole County, Montana. To date the Company has participated in nine wells resulting in seven gas wells and two abandonments. Of these seven wells, five are on production and delivering gas from various formations in the Bow Island, Swift and Sunburst sands. The gas produced is being sold to The Montana Power Company.

The Company owns a 7.5% working interest in the gas gathering and compression facilities and anticipates that the remaining wells can be immediately placed on production.

During the summer of 1980 the Company plans to drill an additional eight to ten wells to evaluate more of the acreage and increase production from the area. Costs of a completed well in this area average approximately $40,000. The wells currently on production are averaging approximately 120 MCF/D per well. The Sproule report estimates that the Company's share of gross proven developed plus undeveloped reserves of natural gas in this area is 219 MMcf.

Utopia Area

The Company has a 50% working interest in natural gas rights in all horizons underlying 1,560 gross acres in the Utopia Area. Two gas wells have been drilled on the Company's acreage and have tested gas in the 2nd White Specks sands and two different Bow Island sands. The Company's working interest in these two wells is 12½% and 25% respectively. These wells have been completed and are connected to The Montana Power Company gathering system and went on production in April, 1980 at a combined rate of approximately 200 MCF/D.

The Company plans to drill two more wells on its acreage in this area in June, 1980. Upon successful completion any available gas will be immediately saleable to The Montana Power Company. The Company's working interest in these two wells will be 18.75% and 37.5%. The total cost to drill and complete these wells will be approximately $40,000 each. The gas gathering system is approximately ¼ mile from these wells.

The Sproule Report has estimated the Company's share of gross proven developed and undeveloped reserves of natural gas in this area at 186 MMcf.

TEXAS

Bivins Area

The Company has a 17% working interest in a continuous drilling program to earn the petroleum and casing head gas rights of the Red Cave formation in 17,000 gross acres in the Bivins Area of Potter and Moore Counties, Texas. All production from this area is classified as stripper production and hence qualifies for stripper oil prices. (See "Industry Conditions", "United States", on page 12.) To date ten wells have been drilled of which nine have been completed as oil producers and one well as a gas well. If a well produces 100% gas the farmor has the right to purchase the well from the farmee at the farmee's cost to date of purchase.

The wells are drilled initially on 20 acre spacing and cost approximately $96,000 to drill, complete and tie in to the battery. The depth of the producing horizon varies between 1,850 feet and 2,100 feet.

The wells will initially produce at estimated rates of 20-60 BOPD and 30-150 MCF/D from 30 feet to 70 feet of net pay and have estimated average recoverable reserves of oil and gas of 19,000 barrels and 105 MMcf per well. The wells are placed on production immediately after drilling. The continuous drilling program involves extensive development in this area and includes the drilling of up to 30 additional wells during 1980. After each group of 5 wells is completed the data will be evaluated to determine the direction of additional drilling.

ACREAGE

The following table summarizes the Company's working interests in petroleum and natural gas rights. The stated interests are held under petroleum and natural gas leases and are subject to royalties and other non-working interests:

ALBERTA	Gross Acres (1)	Net Acres (2)
Birch Lake	640	96
Black Butte	640	116
Camrose	640	160
Conrad	1,280	112
Coutts	4,960	540
Craigmyle	5,760	396
Drumheller	1,280	148
Elnora	3,200	224
Gartley	1,280	620
Killam	640	80
Knappen	4,800	520
Lait	5,120	640
Provost	640	192
Purple Springs	4,480	336
Sedalia	1,760	212
Smith Coulee	4,800	420
Spruce Grove	1,280	272
Twining	160	50
Worsley-Clearhills	3,840	28
TOTAL ALBERTA	47,200	5,162

(1) Includes 6,440 gross acres producing or capable of production.
(2) Includes 1,148 net acres producing or capable of production.

UNITED STATES	Gross Acres	Net Acres
Montana		
Box Elder	320	53
Highview	3,200	1,387
Kevin	37,000	5,550
Knappen	760	190
Little Rock	2,278	2,034
Pumpkin Creek	2,480	1,240
Rapelje	320	160
Sage Creek	640	480
Sober Up Creek	6,840	3,249
Utopia	1,560	780
	55,398	15,123
Wyoming		
Kingsbury Creek	80	80
Miller Ranch	880	198
Sweetwater C-6	4,160	374
	5,120	652

Utah		
Rozel Pt.	50,000	5,000
Texas		
Bivins	17,000	2,890(1)
TOTAL UNITED STATES	127,518	23,665

(1) Continuous drilling program. (See "Developed Lands", Bivins Area, page 6).

The following table summarizes the Company's rights to acquire working interests in petroleum and natural gas rights through farmins, drilling options and seismic options.

ALBERTA	**Gross Acres**	**Net Acres**
Coutts (1)	1,600	240
Provost (2)	640	192
Worsley-Clearhills	3,840	28
Black Butte	640	116
Purple Springs	2,560	192
	9,280	768

UNITED STATES		
Montana		
Little Rock	320	256
Sober Up Creek (3)	1,960	931
South Darling (4)	80	60
West Cut Bank (5)	1,880	1,504
	4,240	2,751

(1) 640 acres — drilling option.
960 acres — seismic option.
(2) Farmin on 640 acres.
(3) Farmin on 1,960 acres.
(4) Farmin on 80 acres.
(5) Farmin on 1,880 acres.

DRILLING ACTIVITIES

The following table shows the number of wells the Company has acquired, drilled or participated in from October 31, 1977, the date of its incorporation, to March 31, 1980.

	Oil Wells	**Gas Wells**	**Dry**	**Total**
Canada	1	14	6	21
United States	11	18	13	42
	12	32	19	63

OIL AND GAS WELLS

Since incorporation and prior to March 31, 1980, the Company has drilled 63 wells resulting in 12 oil wells, 32 gas wells and 19 dry holes. Of the foregoing wells in Canada, there are 2 producing gas wells, 1 producing oil well and 12 capped gas wells. In the United States there are 13 producing gas wells, 11 producing oil wells and the balance of the successful wells are capped.

The following table summarizes the Company's interests in wells capable of production as at March 31, 1980.

CANADA	Gross Wells	Net Wells	Producing	Capped	Proximity in Miles to Transmission Facilities
Alberta					
Birch Lake	1	.1500	1*		on production
Camrose	1	.200		1	3
Craigmyle	2	.1375		2	12
Drumheller	1	.1250		1	3
Elnora	2	.1750		2	2
Gartley	2	.9687		2	8
Killam	1	.1250	1*		on production
Provost	1	.3000		1	1
Purple Springs	1	.0750		1	5
Sedalia	1	.1200		1	2
Spruce Grove	1	.2834		1	3
Twining	1	.3125	1**		on production
	15	2.9721	3	12	

UNITED STATES	Gross Wells	Net Wells	Producing	Capped	Proximity in Miles to Transmission Facilities
Montana					
Highview	1	.475		1	1
Kevin	7	.928	5*	2	1
Little Rock	7	4.541	6*	1	1
Sage Creek	1	.703	1**		on production
Sober Up Creek	1	.475		1	12
Utopia	2	.375	2*		on production
Wyoming					
Kingsbury Creek	1	1.000	1**		on production
Texas					
Bivins	9	1.530	9**		on production
	29	10.027	24	5	

* natural gas wells
** oil well

SUMMARY OF COMPANY RESERVES

The following table summarizes the Sproule Report with respect to the proved and probable reserves attributable to the petroleum and natural gas interests held by the Company.

THE ESTIMATED FUTURE NET CASH FLOWS SET OUT IN THIS TABLE ARE CALCULATED PRIOR TO CONSIDERATION OF INCOME TAXES. IT SHOULD NOT BE ASSUMED THAT THE ESTIMATE OF DISCOUNTED FUTURE NET CASH FLOWS REPRESENTS FAIR MARKET VALUE OF THE RESERVES OR OF THE OIL AND GAS PROPERTIES.

	RESERVES		Cumulative Cash Flow Before Income Tax			
				Discounted at (per annum)		
	Gross Company Interest Reserves	Net Company Interest Reserves	Undiscounted	10%	15%	20%
GAS MMCF	6,089	4,734	$16,353,400	$ 7,586,100	$5,788,400	$4,631,200
OIL BBLS	260,900	204,500	6,256,200	3,971,000	3,298,900	2,796,900
Total Reserves			$22,609,600	$11,557,100	$9,087,300	$7,428,100

NOTES:

(1) The following reserve classifications have been used in the Sproule Report:

"Proven Reserves" are considered to be those reserves that, to a high degree of certainty, are recoverable at commercial rates, under presently anticipated producing methods, operating conditions, prices and costs.

"Probable Reserves" are considered to be those reserves which may reasonably be assumed to exist because of geophysical or geological indications and drilling done in regions which contain proven reserves; or those reserves expected to be commercially recoverable as the result of future pressure maintenance or other secondary recovery methods.

(2) The evaluation of proven and probable oil reserves in Canada was based on the following price schedule, adjusted to the wellhead price being received in March, 1980. The following price schedule was used to evaluate Canadian Gas Reserves.

Year	Crude Price/bbls	Gas Price/MMBtu
1980 (to June 30)	$14.75	2.70
1980 (last 6 months)	16.75	2.70
1981	18.75	2.75
1982	21.75	3.05
1983	23.75	3.35
1984	25.75	3.60
1985	27.75	3.90
1986	29.75	4.15
Thereafter	7%/Yr.	+7%/yr.

United States reserves were evaluated using the prices expected to be received under present U.S. government policies adjusted to reflect anticipated changes in world prices and the effects of the "Windfall Profits" tax on domestic crude, which became effective as of March 1, 1980. United States dollars were converted to Canadian dollars using the exchange rate of $U.S. 1.00 equals $Canadian 1.196, which was in effect on March 31, 1980.

A copy of the Sproule Report may be inspected at the principal office of the Company at 750, 999 - 8th Street S.W., Calgary, Alberta, and at the offices of the Underwriter, during ordinary business hours and while the shares offered by this Prospectus are in the course of distribution and for 30 days thereafter.

EXPLORATION AND DEVELOPMENT EXPENDITURES

From October 31, 1977 to February 29, 1980 the Company has incurred exploration and development expenditures of approximately $2,775,600. In addition, $186,046 was advanced on October 21, 1979 to Fourem Company, which is operated and 50% owned by the Company. The remaining 50% is owned by Landin Co. Fourem Company is the joint venture company operating gathering and compression

facilities at Little Rock, Montana. The sum of $49,033 was advanced on April 6, 1979 to Aloe Ventures of which the Company owns 7.5% working interest. The operator of this joint venture is Branch Oil & Gas. The joint venture operates gathering and compression facilities at Kevin, Montana. The exploration and development expenditures of $2,775,600 were incurred as follows: completed wells, $1,697,000; wells in progress, $48,200; oil and gas properties, $232,900; dry hole costs, $633,000; exploration and geological, $92,400; and maintenance and lease rentals (excepting well operating and royalty payments of $18,800), $90,900.

INDUSTRY CONDITIONS

CANADA

Incentives

The Province of Alberta has enacted Exploratory Drilling Incentive Regulations which provide for credits applicable to certain wells commenced prior to April 1, 1981. A well which is not closer than three miles to a completed well or one and one-half miles to an abandoned well qualifies for the maximum credit. When the well is located within such three mile or one and one-half mile radius of a completed or abandoned well, there are varying provisions for footage intervals qualifying for credit. The cumulative dollars available for the credit are further dependent upon the area of the province where the well is located. Credits may be allocated among the Company and other participants, if any, although not more than 20% of the credit may be allocated to participants who do not contribute to the actual drilling costs of the well. A credit holder may apply incentive credits to satisfy any rentals, mineral taxes and royalties payable to the province or may apply such credits toward the acquisition cost of any petroleum and natural gas licences or leases purchased at Crown sales. When an exploratory well on Crown lands, excepting most wells less than 2,000 feet in depth, results in an oil or gas discovery in a new geological formation, no royalty is payable on production from such well from the commencement date of production for a period of 60 months in the case of petroleum and for a period of 12 months in the case of natural gas.

Petroleum and Natural Gas Pricing Markets

The Petroleum Administration Act (Canada) provides for federal government regulation, either with or without provincial agreement, of the price of Canadian crude oil and natural gas in inter-provincial and export trade. The Province of Alberta has passed legislation which enables it to regulate the prices to be paid for crude oil and natural gas produced in the province and to regulate the amounts of crude oil and natural gas which may be shipped out of the province.

The average price of oil in Alberta is currently $14.75 per barrel at the wellhead. Current federal government policies impose an export tax on oil exported to the United States. The amount of tax imposed has varied based on the difference between the Canadian domestic price and the average price of oil imported to the United States from other countries.

Under the Petroleum Administration Act (Canada) the federal government has the power to regulate the price of natural gas in inter-provincial and international trade. The price set under such Act is known as the Toronto city-gate price and is approximately 85% of the cost of oil in the Toronto area on an energy equivalent basis. The 85% ratio will continue to apply for the next scheduled oil price increase, resulting in a price increase of approximately $0.15 per Mcf for gas sold in existing Canadian markets. The Alberta border price is $1.65 per MMBtu which is determined on the basis of the Toronto city-gate price ($2.30 per MMBtu) less the costs of transportation. The federal and Alberta governments have recently carried out discussions with regard to the sale of Alberta natural gas in new markets in Canada at a reduced price in order to make it more competitive with alternate energy sources.

Natural gas exported to the United States is currently priced at $4.47 per MMBtu at the United States border. The additional revenues generated from the differences between the export price and the domestic price are pro-rated by the Alberta government to all natural gas producers according to their individual shares of Alberta production, resulting in a current distribution of approximately $1.03 per MMBtu.

It has been federal government policy to protect Canadian consumers from possible natural gas supply shortfalls and the National Energy Board has control over the amount of natural gas that may be exported. On February 28, 1979 the National Energy Board issued a report which states that the supply of natural gas in Canada exceeds the domestic requirements of Canada and that short-term exports of approximately two trillion cubic feet of natural gas over the next eight years would be in the national interest of Canada. Further Canadian and United States regulatory approvals are required before additional Alberta gas can be exported. United States demand for additional Canadian gas is uncertain at the present time. There is therefore no assurance that existing nor any additional natural gas reserves discovered by the Company in Canada will be marketable in the short term.

Land Regulations

Petroleum and natural gas leases issued by the Province of Alberta prior to June, 1962 have a primary term of 21 years; those issued between June, 1962 and June 30, 1976 have a primary term of 10 years; and those issued after June 30, 1976 have a primary term of five years. All leases issued by Alberta will be continued beyond the primary term, for those lands producing or capable of producing petroleum substances, until 90 days after production ceases. With respect to leases issued prior to July 1, 1976, rights to zones below the deepest zone considered by the Alberta government to be capable of production in commercial quantities at the later of January 1, 1983 and the end of the primary term of the lease will revert to Alberta at that time. With respect to leases issued after June 30, 1976, rights to zones below the deepest zone considered by the Alberta government to be capable of production in commercial quantities at the end of the primary term of the lease will revert to Alberta at the end of the primary term. Exploration rights may also be acquired from Alberta through exploratory licences, permits and reservations, depending on the location of the lands, for up to six and one half years. By performing certain work commitments, the rights holder is entitled to a lease of certain lands granted under the licence, permit or reservation and is then permitted to produce from the well or wells drilled thereon.

Royalties

The owner of a lease issued by the Crown is obligated to deliver to the Crown a share of production or its equivalent value. Alberta royalties on crude oil vary from 9.8% to 42.8% depending upon the volume of monthly production, selling prices and the timing of the initial production. The royalty rate in Alberta for most natural gas varies with natural gas sale prices and, at current prices, is 32.5% for natural gas discovered in a new pool after January 1, 1974 and 44.5% for other natural gas.

UNITED STATES

Federal Regulation of Price and Allocation of Crude Oil

The United States Department of Energy ("DOE") currently regulates the price and allocation of crude oil produced in the United States and related products. There have been two categories of price controlled oil, upper tier oil (generally oil from properties in production for the first time after 1972 and, as to properties producing in 1972, all production in excess of 1972 levels adjusted for normal production declines) and lower tier oil (oil other than upper tier or oil exempt from price controls). Since the passage of the Energy Policy and Conservation Act (the "Act") in 1975, the DOE has been required to control prices of domestic crude oil so that the weighted national average price (the "composite price") did not exceed an initial composite price of $7.66 a barrel effective February, 1976. Crude oil produced from "stripper wells", those wells

having an average daily production of not more than 10 barrels for any 12 month period since 1972, is exempt from price controls under the Act. The Act allowed limited upward adjustment in the composite price of domestic crude oil to take into account the effects of inflation and, as a production incentive for high-cost and high-risk properties, enhanced recovery techniques, or for sustaining production from marginal wells. Approximately 95% of the U.S. oil sold by the Company in 1979 was upper tier, and 5% was stripper oil.

The President of the United States was authorized under the Act to remove price controls on oil after June 1, 1979. The President and the DOE have implemented a program providing for the gradual decontrol of all prices of domestic crude oil over the next several months. As of June 1, 1979, newly discovered oil was permitted to be sold at free market prices. Since January 1, 1980, upper tier oil is being permitted in equal monthly increments of 4.6% to be sold at free market prices so that by October 1, 1981, all upper tier oil may be sold at free market prices. Other provisions of the program permit oil from marginal wells (wells producing from 20 to 35 barrels of oil per day, depending on their depth) to be sold at the same price as upper tier oil and incremental production from wells employing specified enhanced recovery techniques to be sold at free market prices. Commencing on January 1, 1980, specified percentages of lower tier oil are being permitted to be released to be sold as upper tier oil. The President retains authority until September 30, 1981 to reinstate or modify price controls on domestic crude oil.

Windfall Profits Tax

The Congress of the United States has recently enacted the so-called "windfall profits" tax applying to all taxable crude oil produced from the United States or its possessions after February 29, 1980. The tax is an excise tax imposed as a percentage of the "windfall profit"; that is, the difference between the sales price per barrel and the adjusted base price per barrel plus the amount of state severance taxes (subject to certain limitations). The windfall profit for each barrel of oil is limited to 90% of the net income attributable to that barrel. The applicable percentages of the tax depend on the classification of the oil produced, i.e., tier 1, tier 2 or tier 3 oil. Tier 2 oil is oil produced from stripper wells or from National Petroleum Reserves held by the United States. Tier 3 oil includes newly discovered oil (such as oil produced from a property from which no oil was produced in 1978), heavy oil and oil produced by certain enhanced recovery techniques. Tier 1 oil is all oil other than tier 2 or tier 3 oil. After an interim period ending September 30, 1980, the base price per barrel for tier 1 oil is the maximum price for such oil allowed under the regulations of the DOE existing on March 1, 1979 if such oil had been produced and sold in May, 1979 as upper tier oil reduced by 21 cents. The base prices per barrel for tier 2 and tier 3 oil shall be as prescribed by regulations of the Secretary of the Treasury which are to be designed to yield a base price approximately equal to the price at which such oil would have sold in December, 1979 if all domestic crude oil (other than certain Alaskan crude oil) were uncontrolled and the average sale price for domestic crude oil had been $15.20 per barrel for purposes of the tier 2 base price and $16.55 a barrel for purposes of the tier 3 base price. The adjusted base prices are determined quarterly by making certain permitted adjustments for inflation since June 30, 1979 with an additional adjustment of approximately 2% per year for tier 3 oil. The tax on tier 1 and tier 2 oil other than independent producer oil is 70% and 60%, respectively, of the windfall profit for such oil. An independent producer is a working interest owner not engaged in refining (50,000 barrels or more on any day during the taxable year) or in retail marketing. Independent producer oil is an amount of tier 1 and tier 2 oil determined for each calendar quarter by multiplying 1,000 barrels times the number of days in the quarter. The tax on the amount of independent producer oil is 50% and 30%, respectively, of the tier 1 and tier 2 oil. The tax on all tier 3 oil is 30% of the windfall profit. The tax is scheduled to be phased out commencing with the later of January, 1988 or such time as the Secretary of the Treasury estimates the aggregate net revenue received from the tax exceeds 227.3 billion dollars but in no event later than December, 1990. The aggregate net revenue is the aggregate gross revenue from the tax reduced by the tax on oil owned by the United States and the amount of the reduction in income taxes due to the deductibility of this tax. Phaseout of the tax will be made by reducing the applicable percentages by 3% per month. The tax can be deducted from federal income taxes for the taxable year in which it is paid or accrued. The first purchaser of oil subject to the tax is required to withhold the amount of the tax. The effect of the tax is to substantially reduce the revenues to the Company that would otherwise result from price increases over the adjusted base price for any oil produced by the Company.

Natural Gas Regulation

The production and sale of natural gas by the Company for resale in intrastate or interstate commerce is subject to regulation by the Federal Energy Regulation Commission ("FERC") pursuant to the Natural Gas Act of 1938, as amended, and the recently enacted Natural Gas Policy Act of 1978 (the "NGPA") which was signed into law by the President on November 9, 1978. The NGPA affects the price of gas sold in either the intrastate or interstate market. Existing long-term contractual agreements apply to most sales of natural gas by the Company in the United States and are thus not presently significantly affected by the Act.

The NGPA established, effective as of April, 1977, an initial ceiling price of $1.75 per million Btus ("MMBtu") for "new natural gas" subject to monthly adjustments based upon (a) the monthly equivalent of the annual increase in the rate of inflation (as calculated in accordance with the provisions of the NGPA), plus (b) a growth factor of 3.5% per month through April, 1981, and 4% for each month thereafter. "New natural gas" is generally defined by the NGPA to include, but is not limited to, gas produced from new onshore wells (wells as to which drilling operations were commenced on or after February 19, 1977) located 2.5 miles or more away from, or 1,000 feet deeper than, an existing marker well (a well from which natural gas was produced in commercial quantities at any time after January, 1970, and before April 20, 1977).

The NGPA also established, effective as of April, 1977, an initial ceiling price of $1.75 per MMBtu for sales of gas from "new, onshore production wells", which price is subject to monthly adjustments based upon the monthly equivalent of the annual increase in the rate of inflation (as calculated in accordance with the provisions of the NGPA), but which is not entitled to receive the benefit of the above-specified percentage growth factors applicable to "new natural gas". The NGPA generally defines a "new, onshore production well" to be any new well (a) the drilling of which began on or after February 19, 1977; (b) which satisfies applicable federal or state well spacing requirements; and (c) which is not within a proration unit which (i) was in existence at the time such drilling began; (ii) was applicable to the reservoir from which such gas is produced; and (iii) which applied to a well which produced gas in commercial quantities or as to which drilling began prior to February 19, 1977, and which was thereafter capable of producing gas in commercial quantities.

The NGPA provides for the removal of price controls by January 1, 1985, on certain categories of gas, including (a) "new natural gas"; (b) gas produced from "new, onshore production wells" having a depth greater than 5,000 feet and which was not dedicated to interstate commerce on April 20, 1977; and (c) gas sold under certain presently existing intrastate contracts and any renewals thereof. The NGPA further provides for the removal of price controls by July 1, 1987 on gas produced from "new, onshore production wells" completed at a depth of 5,000 feet or less and which was not dedicated to interstate commerce on April 20, 1977.

As to those categories of gas as to which price deregulation is to occur on January 1, 1985, the NGPA delegates to the President or the Congress standby authority to reimpose price controls, provided that such controls may not take effect earlier than July 1, 1985, or later than June 30, 1987 and may only remain in effect for a period of 18 months.

Other provisions of the NGPA impose special ceiling prices on (a) "high-cost natural gas" (defined to include, among other categories, gas produced from wells commenced on or after February 19, 1977, and completed at depths below 15,000 feet) and (b) "stripper well natural gas" (defined generally as nonassociated natural gas from any well which produces on the average not more than 60 MCF [thousand cubic feet] per day).

Conservation Laws

Production of oil and gas by the Company is affected by state and federal conservation laws and regulations controlling the spacing of wells, allowable rates of production and otherwise regulating the conduct of oil and gas operations.

Environmental Regulations

The Company's drilling and producing operations are also subject to environmental regulations established by federal, state and local agencies which could have a material adverse affect upon the operations of the Company.

General

From time to time, other legislation has been introduced, which if enacted, could have adversely affected the petroleum industry in the United States. The Company cannot determine to what extent, if any, its future operations and earnings may be affected by any such new legislation, new regulations or changes in existing regulations.

USE OF PROCEEDS

The estimated net proceeds to be received by the Company from the sale of the Shares offered by this Prospectus will be approximately $2,827,400 after deducting the underwriting commission estimated at $222,600 and the expenses of the issue estimated at $130,000.

Although Management's plans are flexible and subject to change, Management's present plans include the following anticipated expenditures over a two year period:

Canada

Development drilling and production facilities	$ 50,000
Drilling of new prospects	$250,000
Lease acquisitions	$ 50,000
Future Working Capital Requirements	$100,000
Reduction of present Current Liabilities	$107,400
Total expenditure Canadian properties	$557,400

United States

Development drilling and production facilities	$ 500,000
Drilling of new prospects	$ 350,000
Lease acquisition	$ 250,000
Future Working Capital Requirements	$ 500,000
Reduction of present Current Liabilities	$ 670,000
Total expenditure United States properties	$2,270,000
TOTAL	$2,827,400

NOTES

(a) The $600,000 referred to under the headings "Working Capital Requirements" will be used for development, drilling and production facilities, drilling of new prospects and lease acquisitions.

(2) The Company is repaying $777,400 of current liabilities. These are a portion only of the current liabilities and relate to costs incurred in connection with the Company's exploration and development of reserves in the Bivins Area, Texas, which costs to-date total $201,000; the Kevin and Little Rock Area, Montana, which costs to-date total $525,000; and Twining, Alberta, which costs to-date total $87,000.

(3) The remainder of the Company's working capital deficiency will be met from various sources which may include a portion of the proceeds of this issue, future cash flow and possible additional bank borrowings.

(4) The monies allocated to development, drilling and production facilities and future working capital requirements may not meet the capital requirements to establish reserves in accordance with the Sproule Report. The Company proposes to generate these additional capital requirements from other sources including cash flow and bank borrowings.

(5) The working capital deficiency of the Company at February 29, 1980 of $1,809,115 was incurred primarily in the acquisition of lands and the drilling and completion of oil and gas wells currently held by the Company.

(6) All cost estimates for the United States program are quoted in Canadian dollars.

Until required for the Company's purposes all of the net proceeds will be invested by the Company in short-term deposit receipts or similar securities. The actual amount of proceeds expended on exploration or development may vary from current proposals as a result of exploration and/or prudent business judgment. In such cases funds will be allocated to new projects identified in the future.

CAPITALIZATION

Share Capital	Shares Authorized or to be Authorized	Shares Outstanding on February 29, 1980	Shares Outstanding on July 11, 1980	Shares Outstanding after giving effect to this issue
Common shares without par value	15,000,000	4,265,000 ($1,381,801.20)	4,265,000 ($1,381,801.20)	5,465,000 ($4,339,201.20)

PLAN OF DISTRIBUTION

By agreement dated July 22, 1980 (the "Underwriting Agreement") between Peters & Co. Limited, 312 - 4th Avenue S.W., Calgary, T2P 0H7 (the "Underwriter") and the Company, the Company agreed to sell and the Underwriter agreed to purchase all, but not less than all of the Shares of the Company at and for a price of $2.4645 per Share payable in cash on August 6, 1980. The Shares will be sold to the public at a fixed price of $2.65 per Share.

The obligations of the Underwriter under the Underwriting Agreement may be terminated at its discretion on the basis of its assessment of the financial markets and may also be terminated on the occurence of certain stated events.

In connection with this offering, the Underwriter may over-allot or effect transactions which stabilize or maintain the market price of the securities offered hereby at a level other than which might prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

The Underwriter may sell the Shares in all provinces where the Shares are offered for sale through registered dealers other than the Underwriter.

DETAILS OF OFFERING

The authorized capital of the Company consists of 15,000,000 shares without nominal or par value which may not be sold for more than $15,000,000. The shares of the Company offered by this Prospectus are shares without nominal or par value. Any and all of such shares when issued pursuant to the offering shall be issued as fully paid and non-assessable. The shares are entitled to dividends pro-rata as and when declared by the Board of Directors; to one vote per share on a poll vote at any meeting of the shareholders of the Company; upon liquidation to receive pro-rata such assets of the Company as are distributable to the holders of the shares; and have no pre-emptive, conversion or subscription rights.

Application for listing of the shares of the Company on The Alberta Stock Exchange has been accepted subject to the completion of documentation and evidence of satisfactory distribution. The issue price of the shares offered hereby was determined by negotiation between the Company and the Underwriter.

DIVIDEND RECORD

No dividends have been paid on any shares of the Company since the date of its incorporation and it is not contemplated that any dividends will be paid in the foreseeable future.

SPECULATIVE NATURE OF SECURITIES AND DILUTION

There is no market for the shares and no dividends have been declared or paid on the shares. This offering should be considered speculative due to the fact that the Company is in its early stages of development and that the proposed use of net proceeds (see "Use of Proceeds" on page 15) of the shares offered hereby is primarily for oil and gas exploration, development and the acquisition of prospective land holdings.

Investors should consider the following risk factors when evaluating the shares:

(1) Exploration for oil and gas is speculative and necessarily involves substantial risks.

(2) There is no assurance that any expenditures made by the Company in exploration will result in any discoveries of oil or gas in commercial quantities.

(3) The exploration, development, production, transportation and marketing of oil and gas are subject to various factors beyond the control of the Company, including competition in the market place, availability of pipeline facilities, and increasing governmental regulation.

(4) The Company has firm oil and gas sales contracts relative to 79.5% of the Sproule Report's proven and probable reserve values discounted at 15%.

(5) **The existence of title opinions should not be construed to suggest that the Company has good and marketable title to all of the properties described in the prospectus.** The Company follows usual industry practice in obtaining title opinions with respect to its lands. The Company has obtained title opinions covering 93% and 100% of the lands for which it claims proven and probable reserves in the United States and Canada respectively. The Company has obtained title opinions on 21% of the acreage of its undeveloped lands. The Company undertakes not to spend any of the funds received from this offering in drilling on any of its properties until satisfactory title has been obtained. The title opinions will be on view at the Company's office during distribution of this offering and for 30 days thereafter.

(6) Based upon the present value of the future net revenue from proved and probable petroleum and natural gas reserves of the Company (before consideration of income taxes), discounted at 15% per annum and including the appraised value of certain undeveloped acreage of the Company, the value of the issued shares of the Company after this offering has been completed and all 1,200,000 shares have been sold will be $2.11 resulting in a dilution of 20.4% in the value of the common shares. In view of this dilution certain shareholders of the Company have agreed to escrow 1,520,000 shares. See "Escrowed Shares" on page 20.

MANAGEMENT AND HISTORY OF MANAGEMENT

John William MacKenzie was born in Calgary and has been active in petroleum and natural gas exploration for over 40 years. Mr. MacKenzie also has experience in the pipeline and drilling industries and was one of two promoters of Petroquest Ltd. Petroquest Ltd. was taken over by Sceptre Resources Limited in 1977.

Peter Joseph Gross, Vice-President, received a Bachelor of Science degree in Geological Engineering (Petroleum Option) in 1961 and a Master of Science degree in Petroleum Engineering from the Montana School of Mines in 1964. Mr. Gross was employed as a Petroleum Engineer by Shell Canada in 1961 and by Shell Oil Co. (U.S.) in 1964. Mr. Gross joined Husky Oil, Canada in 1968 as Area Engineer. In 1971 he joined Uno-Tex Petroleum as Manager of Production and Engineering until 1976 and in the same capacity with Sceptre Resources Limited until 1979. Mr. Gross joined the Company in April, 1979 with the responsibility of expanding exploration and development activities.

MANAGEMENT, DIRECTORS AND OFFICERS

The names and home addresses of the directors and officers of the Company, the offices held by them in the Company and their principal occupation for the last five years are as follows:

Name and Address	Office	Principal Occupation
John William MacKenzie #208, 827 - 18 Avenue S.W. Calgary, Alberta T2T 0G9	President and Director	Vice-President Petroquest Ltd., 1972 to 1977, President, Macquest Resources Ltd.
Gilbert James Henderson #1701 Hull Estates 1200 - 6th Street S.W. Calgary, Alberta T2P 1M3	Vice-President Treasurer and Director	Chairman of the Board, Watts, Henderson & Rexway Group of Companies, Vice-President and Treasurer, Macquest Resources Ltd.
Ronald Frank Holdsworth Rural Route #1 Millarville, Alberta T0L 1K0	Secretary and Director	Barrister and Solicitor; Secretary, Macquest Resources Ltd.
Peter Joseph Gross 5436 Bannerman Dr. N.W. Calgary, Alberta T2L 1W2	Vice-President	Manager of Production and Engineering, Sceptre Resources Limited, 1976 to March, 1979; Vice-President, Macquest Resources Ltd., April, 1979 to present.

REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration paid by the Company, directly or indirectly, to the Directors and senior officers of the Company for the fiscal year ending October 31, 1979 was $36,350 and for the period from October 31, 1979 to May 1, 1980 was $27,950. The Directors have not received any remuneration from the Company for their services rendered as Directors and it is not anticipated that they will receive any remuneration from the Company for their services in that capacity for the foreseeable future. The Company anticipates that it will commence paying a salary to John W. MacKenzie during 1980. John W. MacKenzie and Peter J. Gross provide their services on a full time basis exclusively to the Company. It is anticipated that the aggregate remuneration to be paid to the Directors and senior officers of the Company for the twelve month period commencing July 1, 1980 will be approximately $120,000.

The Directors and senior officers of the Company will provide management and technical services necessary to carry on the day-to-day operations of the Company. There are no management contracts with Directors and/or senior officers.

PRINCIPAL SHAREHOLDERS

The following table lists each Shareholder owning of record, or known to the Company to own beneficially, either directly or indirectly, more than 10% of the issued Shares of the Company as at April 30, 1980.

Name of Shareholder	Designation of Class	Type of Ownership	Number of Shares Owned	Percentage of Class
John William MacKenzie	Common Shares	Of record and beneficially	1,960,000	46.1%
Gilbert James Henderson	Common Shares	Of record and beneficially	940,000	22%

The Directors and senior officers of the Company, as a group, held as at April 30, 1980, 3,200,000 shares or 75% of the issued and outstanding shares of the Company.

PROMOTERS AND INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

John William MacKenzie, Gilbert James Henderson and Ronald Frank Holdsworth may be regarded as the promoters of the Company inasmuch as they assembled the properties for the Company. Other than the shares issued to them for cash, they have received no money, property, options or rights of any kind. The promoters to-date have not received any remuneration from the Company, for services provided to the Company.

None of the directors or officers of the Company or any principal shareholder of the Company, and no associate or affiliate of any of them, has any material interest in any transaction which materially affects the Company, other than those described below.

1. Effective November 1, 1977, John William MacKenzie assigned certain petroleum and natural gas interests to the Company for a total consideration of $4,400.00 evidenced by shareholders' loans. The value of the petroleum and natural gas interests conveyed to the Company was based on fair market value of the acreage involved as agreed between John William MacKenzie and the Company. John William MacKenzie acquired the interest by incurring costs of $46,247.84 with respect to his share of the drilling costs of an unsuccessful well.
2. By Agreement entered into February 8, 1979 between John William MacKenzie, Gilbert Henderson, Ronald Frank Holdsworth and the Company, it was agreed that 2,999,988 shares of the Company would be issued for a cash consideration of $216,800.00. The cash consideration was paid by retirement of shareholders' loans totalling $66,800.00 comprised of the $4,400.00 referred to in 1 above and cash advances of $62,400.00 and $150,000.00 cash payment.
3. In consideration for Mr. Peter J. Gross accepting a position as Engineer with the Company, the Company made an interest free loan to Mr. Gross in the sum of $100,000.00 to permit him to purchase 200,000 common shares of the Company at aprice of $.50 per share. The balance outstanding of $99,999.00 is repayable by Mr. Gross to the Company April 2, 1984. The provisions of the foregoing arrangement are contained in an Agreement entered into between the Company and Mr. Gross dated April 2, 1979.

PRIOR SALES

Since its incorporation, the Company has issued common shares for cash as follows:

Date	Number of Shares Issued	Price Per Share	Net Proceeds
November 15, 1977	12	$ .10	$ 1.20
February 8, 1979	2,999,988	.07227	216,800.00
April 2, 1979	200,000	.50	100,000.00
July, 1979	1,065,000	1.00	1,065,000.00
	4,265,000		$1,381,801.20

NOTES

(1) Of the 2,999,988 shares issued on February 8, 1979, 60,883 were issued for forgiveness of shareholders' loans of $4,400.00 to John William MacKenzie.

(2) The 200,000 shares issued on April 2, 1979 were issued to Peter J. Gross in accordance with the terms of an agreement of even date.

For further particulars concerning the above transactions see "Promoters and Interest of Management and Others in Material Transactions" on page 19.

ESCROWED SHARES

It has been agreed that 1,520,000 common shares representing 27.8% of the outstanding common shares following this issue are to be held in escrow by The Canada Trust Company, 505 - 3rd Street S.W., Calgary, Alberta, with release subject to the discretion of the Director of the Alberta Securities Commission ("Director"). The escrow restrictions provide that the common shares may not be traded, sold, pledged, transferred, assigned, or dealt with in any manner whatsoever without the prior written consent of the Director. The Director may require that all or a portion of the escrowed shares be surrendered to the Company by way of gift for cancellation depending on the future net asset value of the common shares. The aforesaid common shares were escrowed pursuant to the provisions of the Escrow Agreement of even date herewith and entered into between the various shareholders and The Canada Trust Company. Of the shares being escrowed, 992,560 are held in the name of John William MacKenzie, 475,760 are held in the name of Gilbert James Henderson, and 51,680 are held in the name of Ronald Frank Holdsworth. The 200,000 shares purchased by Peter Gross pursuant to agreement dated April 2, 1979 are held in escrow by Jones & Company as escrow agent pursuant to an agreement dated April 2, 1979 and are subject to release pro rata upon receipt of payments from time to time. The 200,000 shares must be paid for in full on or before April 2, 1984.

MATERIAL CONTRACTS

Except for material contracts made in the ordinary course of business, the only material contracts entered into by the Company since the date of incorporation are as follows:

1. Underwriting Agreement dated July 22, 1980 between the Company and Peters & Co. Limited.
2. Escrow Agreement dated July 22, 1980 between The Canada Trust Company and John William MacKenzie, Gilbert James Henderson and Ronald Frank Holdsworth. See "Escrowed Shares" page 20.
3. Property assignment agreement dated November 1, 1977 between the Company and John William MacKenzie.
4. Share Sale Agreement dated February 8, 1979 between John William MacKenzie, Gilbert Henderson, Ronald Frank Holdsworth and the Company.
5. Share Sale Agreement dated April 2, 1979 between the Company and Peter J. Gross.

See "Promoters and Interest of Management and Others in Material Transactions" on page 19 for particulars concerning material contracts 3, 4 and 5.

Copies of these Material Contracts may be inspected at the head office of the Company during distribution to the public of the Shares offered hereby and for a period of 30 days thereafter.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The Auditors of the Company are Miller, McClelland & Co., Chartered Accountants, 1603 - 10th Avenue S.W., Calgary, Alberta, T3C 0J7.

The Transfer Agent and Registrar is The Canada Trust Company, 505 - 3rd Street S.W., Calgary, Alberta, T2P 3E6.

AUDITORS' REPORT

To the Shareholders of
MACQUEST RESOURCES LTD.

We have examined the consolidated balance sheet of Macquest Resources Ltd. as at October 31, 1979 and the consolidated statements of loss, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1979 and the results of its consolidated operations and the changes in its consolidated financial position for the year then ended in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

The financial statements include unaudited, comparative figures for the subsequent four months ended February 29, 1980.

Chartered Accountants

Calgary, Alberta,
February 19, 1980.
Other than the unaudited
February 29, 1980 figures for
which the date is April 7, 1980.

MACQUEST RESOURCES LTD.

CONSOLIDATED STATEMENT OF LOSS

For the Year Ended October 31, 1979
(expressed in Canadian dollars)

	Four Months Ended February 29, 1980 (unaudited)	1979	1978
REVENUE			
Oil and gas sales	108,964	53,014	35,034
Administration fees	5,053	103,852	—
Interest	400	6,511	—
	114,417	163,377	35,034
EXPENSES			
Audit and legal	16,015	6,385	7,082
Automotive	2,831	3,884	1,069
Depreciation and amortization	7,892	18,906	3,904
Dry hole costs	107,915	470,348	54,787
Exploration and geological services	24,793	52,426	15,231
Insurance	539	2,451	603
Interest and bank charges	63,506	51,927	1,142
Maintenance and lease rentals	32,015	56,452	2,407
Office, postage and stationery	5,125	13,207	3,673
Rent and utilities	10,459	16,021	8,800
Salaries and employee benefits	24,803	35,549	289
Telephone	2,139	7,071	2,971
Travel and promotion	12,483	20,455	11,135
Exchange loss (recovery)	(21,114)	(2,498)	12,745
	289,401	752,584	125,838
NET LOSS FOR THE YEAR	(174,984)	(589,207)	(90,804)

MACQUEST RESOURCES LTD.

CONSOLIDATED STATEMENT OF DEFICIT

For the Year Ended October 31, 1979
(expressed in Canadian dollars)

	Four Months Ended February 29, 1980 (unaudited)	1979	1978
Balance, beginning of year	680,011	90,804	—
Net loss for the year	174,984	589,207	90,804
Balance, end of year	854,995	680,011	90,804

See accompanying notes.

MACQUEST RESOURCES LTD.
(An Alberta Company)

CONSOLIDATED BALANCE SHEET

At October 31, 1979
(expressed in Canadian dollars)

	February 29, 1980 (unaudited)	1979	1978
ASSETS			
CURRENT			
Term deposits	10,000	10,000	428,035
Accounts receivable	416,008	340,399	51,150
Prepaid expenses	4,210	2,600	1,052
	430,218	352,999	480,237
NOTE RECEIVABLE (Note 2)	99,999	99,999	—
ADVANCE TO JOINT VENTURES	235,079	58,940	—
PROPERTY AND FIXED ASSETS (Note 3)	2,000,843	1,701,099	446,265
	2,766,139	2,213,037	926,502
LIABILITIES			
CURRENT			
Bank indebtedness (Note 4)	1,918,863	639,531	240,827
Accounts payable and accrued	320,470	771,338	174,802
Advance from drilling fund	—	100,378	—
	2,239,333	1,511,247	415,629
DUE TO SHAREHOLDERS	—	—	601,676
SHAREHOLDERS' EQUITY			
SHARE CAPITAL (Note 5)			
Authorized			
15,000,000 Common Shares of no par value			
Issued			
4,265,000 Common Shares	1,381,801	1,381,801	1
DEFICIT	(854,995)	(680,011)	(90,804)
	526,806	701,790	(90,803)
	2,766,139	2,213,037	926,502

ON BEHALF OF THE BOARD:

(Signed) J. W. MacKenzie
Director
(Signed) G. Henderson
Director

See accompanying notes.

MACQUEST RESOURCES LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended October 31, 1979
(expressed in Canadian dollars)

	Four Months Ended February 29, 1980 (unaudited)	1979	1978
SOURCE OF WORKING CAPITAL			
Operations			
Items not representing a change in working capital			
Depreciation and amortization	7,892	18,906	3,904
Total working capital provided from operations	7,892	18,906	3,904
Advances from shareholders	—	—	601,676
Proceeds from sale of capital stock	—	1,381,800	1
	7,892	1,400,706	605,581
APPLICATION OF WORKING CAPITAL			
Operations			
Net loss for the year	174,984	589,207	90,804
Additions to fixed assets			
Furniture and leasehold improvements	27,861	6,000	19,520
Additions to property			
Oil and gas interests	30,730	143,307	58,850
Wells in progress	(208,185)	117,857	138,489
Completed wells	457,230	1,006,576	233,310
Note receivable on sale of capital stock	—	99,999	—
Advance to joint ventures	176,139	58,940	—
Reduction of advances from shareholders			
Loan repayment	—	434,876	—
Purchase of Common Shares	—	166,800	—
	658,759	2,623,562	540,973
INCREASE (DECREASE) IN WORKING CAPITAL FOR THE YEAR	(650,867)	(1,222,856)	64,608
Working capital, beginning of year	(1,158,248)	64,608	—
WORKING CAPITAL (DEFICIENCY), END OF YEAR	(1,809,115)	(1,158,248)	64,608

See accompanying notes.

MACQUEST RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended October 31, 1979

1. SUMMARY OF ACCOUNTING POLICIES

The Company follows the successful efforts method of accounting for oil and gas interest whereby exploration expenditures including geological and geophysical expense, rentals on undeveloped properties and dry hole costs are charged to expense as incurred. Acquisition costs of oil and gas properties together with costs of drilling and equipping successful wells are capitalized and amortized on the unit of production method based on proven estimated reserves for each well. Standing well costs are capitalized pending commencement of production.

The consolidated financial statements include the accounts of the Company and its United States subsidiary Macquest Petroleum Inc.

Accounts of the subsidiary Macquest Petroleum Inc. are translated into Canadian dollars. Cash, marketable securities, receivables and current payables are translated at the year-end rate of exchange. Property and equipment are translated at rates which are in effect when the asset was acquired. Income accounts are translated at the average rate for the year.

2. NOTE RECEIVABLE

The note receivable, which is non-interest bearing and due in 1984, represents funds advanced to an employee for the purposes of acquiring treasury shares of the Company.

3. PROPERTY AND FIXED ASSETS

(a) Property

			Net Book Value		
	Cost	Amortization	February 29 1980	1979	1978
Oil & gas interests	232,887	—	232,887	202,157	58,850
Wells in progress	48,160	—	48,160	256,346	138,489
Completed wells	1,697,037	19,276	1,677,761	1,225,642	233,310
	1,978,084	19,276	1,958,808	1,684,145	430,649

(b) Fixed Assets

				Net Book Value		
	Rate	Cost	Accumulated Depreciation and Amortization	February 29, 1980	1979	1978
Office equipment	20%	38,893	7,391	31,502	11,870	8,837
Leasehold improvements	20%	14,488	3,955	10,533	5,084	6,779
		53,381	11,346	42,035	16,954	15,616

The office equipment is depreciated using the declining-balance method. The leasehold improvements are amortized on the straight-line basis over the term of the lease. Certain of the companies' properties are hypothecated to the bank as security against bank loans.

4. BANK INDEBTEDNESS

	February 29, 1980	1979	1978
Cash in bank	—	—	(59,946)
Bank overdraft	359,473	285,891	—
Bank loans	1,559,390	353,640	300,773
	1,918,863	639,531	240,827

5. CAPITAL STOCK

(a) Authorized

On February 7, 1979 the Memorandum of Association was amended by special resolution to increase the authorized capital from 20,000 shares without nominal or par value which may be issued for a maximum price or consideration not exceeding in the aggregate the sum of $20,000 to 15,000,000 shares without nominal or par value which may be issued for a maximum price or consideration not exceeding in the aggregate the sum of $15,000,000.

(b) Issued

During the year 4,264,988 common shares were issued for cash consideration totalling $1,381,800.

(c) On May 29, 1979 the Company was converted from a private to a public company pursuant to the provisions of Section 47 of The Companies Act of Alberta.

PURCHASER'S STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Sections 64 and 65 of The Securities Act (Alberta), Sections 71 and 72 of The Securities Act (Saskatchewan), and sections 63 and 64 of The Securities Act (Manitoba) provide, in effect, that where a security is offered in the course of distribution to the public:

(a) a purchaser will not be bound by a contract for the purchase of such security if written or telegraphic notice of his intention not to be bound is received by the vendor or his agent not later than midnight on the second business day after the prospectus or amended prospectus offering such security is received or is deemed to be received by the purchaser or his agent; and

(b) a purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if the prospectus or any amended prospectus offering such security, as of the date of receipt or deemed receipt, contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, but no action to enforce this right can be commenced by a purchaser after the expiration of 90 days from the later of the date of such contract or the date on which such prospectus or amended prospectus is received or is deemed to be received by him or his agent.

Sections 61 and 62 of The Securities Act (British Columbia) provide, in effect, that where a security is offered to the public in the course of primary distribution:

(a) a purchaser has a right to rescind a contract for the purchase of a security, while still the owner thereof, if a copy of the last prospectus, together with financial statements and reports and summaries of reports relating to the securities as filed with the Superintendent of Brokers of British Columbia, was not delivered to him or his agent prior to delivery to either of them of the written confirmation of the sale of securities.

Written notice of intention to commence an action for rescission must be served on a person who contracted to sell, within 60 days of the date of delivery of the written confirmation, but no action shall be commenced after the expiration of three months from the date of service of such notice; and

(b) a purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if the prospectus or any amended prospectus offering such security contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, but no action to enforce this can be commenced by a purchaser after expiration of 90 days from the later of the date of such contract or the date on which such prospectus or amended prospectus is received or is deemed to be received by him or his agent.

Sections 70, 126, and 135 of The Securities Act, 1978 (Ontario) provide, in effect, that where a security is offered for sale in the course of distribution:

(a) a purchaser will not be bound by a contract for the purchase of such security if written or telegraphic notice of his intention not to be bound is received by the vendor, or by his agent not later than midnight on the second business day after receipt by him of the Prospectus offering such security;

(b) a purchaser who has purchased such security during the course of such distribution has a right of action for damages against the issuing company, each person who was a director thereof at the date the Prospectus was filed, each underwriter of the securities who has signed or ought to have signed the certificate at the end of the Prospectus and any other person who has signed the Prospectus if the Prospectus contains a statement of a material fact which was untrue at the date of his purchase or fails to state a material fact that is required to be stated as at such date or that is necessary as at such date to make a statement not misleading in the light of the circumstances in which it was made and in addition has a right of action for damages against any person or company who has provided a report, opinion or statement incorporated, quoted, or relied upon by the Prospectus if such report, opinion or statement contains a material fact which was untrue at such date or fails to state a material fact that is required to be stated as at such date or that is necessary as at such date to make a

statement not misleading in the light of the circumstances in which it was made provided however that no such action may be commenced by such purchaser later than the earlier of 180 days next after the purchaser first had knowledge of the facts giving rise to the cause of action or three years after the date of purchase;

(c) a purchaser who has purchased such security during the course of such distribution from an underwriter of the securities who has signed or ought to have signed the certificate at the end of the Prospectus, or from another underwriter, has the option, in lieu of his right of action for damages, of a right to rescind for the purchase of such security if the Prospectus or any amendments thereof contains any statement of a material fact which was untrue at the date of his purchase, or fails to state a material fact that is required to be stated as at such date or that is necessary as at such date to make a statement not misleading in the light of the circumstances in which it was made, provided however that no such action for rescission may be commenced by such purchaser later than 180 days next after the date of purchase.

Reference is made to the aforesaid Securities Act for the complete texts of the provisions under which the foregoing rights are conferred and the foregoing summary is subject to the express provisions thereof.

DATED: July 22, 1980

CERTIFICATES

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by Part 7 of the Securities Act (British Columbia), by Part 7 of The Securities Act (Alberta), by Part VIII of The Securities Act (Saskatchewan), by Part VII of The Securities Act (Manitoba), and by Part XIV of The Securities Act, 1978 (Ontario) and by the respective regulations made under the said Acts.

(Signed) J. W. MacKenzie
Chief Executive Officer

(Signed) G. Henderson
Chief Financial Officer

On behalf of the Board of Directors

(Signed) J. W. MacKenzie
Director

(Signed) R. F. Holdsworth
Director

PROMOTERS

(Signed) J. W. MacKenzie

(Signed) G. Henderson

(Signed) R. F. Holdsworth

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by Part 7 of The Securities Act (British Columbia), by Part 7 of The Securities Act (Alberta), by Part VIII of The Securities Act (Saskatchewan), by Part VII of The Securities Act (Manitoba) and by Part XIV of The Securities Act, 1978 (Ontario) and by the respective regulations made under said Acts.

PETERS & CO. LIMITED

(Signed) R. G. Peters

The following includes the name of every person having an interest, either directly or indirectly, to the extent of not less than 5%, in the capital of Peters & Co. Limited: R. G. Peters. H. F. Osler, C. B. Locke, T. L. Falkenberg, and R. S. Dinning.

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